

April 1, 2004

Commissioner Thomas Irwin
Department of Natural Resources
550 West 7th Avenue, Suite 1400
Anchorage, Alaska 99501

Subject: Cook Inlet Royalty in Kind Gas

Dear Commissioner Irwin:

Thank you for the invitation to express our interest in Cook Inlet Royalty in Kind ("RIK") gas.

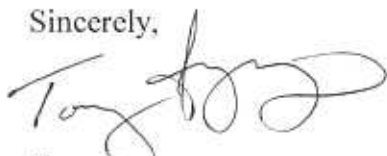
ENSTAR Natural Gas Company currently purchases approximately 27 billion cubic feet (Bcf) of Cook Inlet natural gas annually (of which roughly one-eighth is in-value State royalty gas) and has about 200 Bcf of Cook Inlet gas committed under long-term contracts. ENSTAR's gas suppliers have committed to supply sufficient gas to meet all of ENSTAR's requirements only through 2007, and have the option, if they are able to discover and develop sufficient gas, to commit to meet ENSTAR's requirements for additional years. As a result, ENSTAR does not anticipate having any need or ability to purchase additional State royalty gas for at least the next several years.

Any sale of RIK gas will reduce the amount of gas available for the use of residential and industrial gas customers, including the Anchorage electrical utilities, in South Central Alaska. As you are well aware, the supply of gas in Cook Inlet is finite and in short supply, and new supplies of gas are needed to replace existing reserves as they are used. As the Department's own studies and reports point out, gas is being consumed at a much greater rate than it is being replaced. The statistics show that in every year since 1970 annual discoveries have been less than annual use. In fact, for the entire period of 1971 to 1996, less than one-year's annual use was discovered. Selling RIK gas in order to increase current gas use without adding new discoveries will cause shortages and price increases for all South Central Alaska consumers.

ENSTAR explored the purchase of RIK with the Department in the mid 90's. Ultimately, ENSTAR decided that it was not in the best interests of the community, or the State, for it to meet its immediate needs with RIK gas. Instead, ENSTAR believed then, as it does now, that it is preferable for buyers of significant volumes of gas to be proactive in encouraging exploration for new sources of gas. This is precisely what ENSTAR has

done by contracting with Union Oil Company of California (Unocal) in 2000¹ to meet its own long-term needs. Unocal agreed to undertake extensive exploration for gas, and to commit gas that it found to ENSTAR. ENSTAR in turn agreed to buy its gas from Unocal so long as Unocal could meet ENSTAR's needs. This contract has resulted in significant drilling and other economic activity and new gas reserves at prices that benefit the consumers and the State. This "free market" solution benefits all gas consumers, as it induces new exploration and brings new gas to market, extending the supply of gas in the region. In contrast, direct sale of RIK gas does nothing to increase the supply of gas and may in fact discourage exploration in the short term due to lack of a near-term market. Increasing consumption of existing gas is not a wise policy choice. That policy will create shortages and increase prices for Alaskan consumers.

Sincerely,



Tony Izzo
ENSTAR Natural Gas Company

¹ ENSTAR's Moquawkie field contract signed in 2000 and its 2003 contract with NorthStar Energy for Homer area gas encouraged or required additional exploration and development of natural gas reserves as well.